Focus
Ukraine

Scope
Bonds

Analyst
Taras Kotovych

Bond Market Insight

Demand for FX-denominated bonds

WEDNESDAY, 20 JANUARY 2016

Government bond auction results

The second primary auction in 2016 was the debut of a broader offering including four bonds denominated in local currency and one USD-denominated bonds. After last week's successful placement, this auction could collect significant demand for local currency bonds. The NBU's changes in FX regulations significantly changes market situation as demand is being reoriented to FX-denominated bonds which were not previously available to many investors.

As a result, local currency bonds collected only indicative bids amounting to a total of UAH65.0m while the FX-denominated bonds received US$486.05m (UAH11.97bn at the official NBU exchange rate) in demand, with 28 bids submitted at interest rates in the range of 6.75-8.00%. The MoF could reject some bids and set the cut-off interest rate slightly below the maximum level. While this decision could transfer a portion of demand for the next offering of FX-denominated bonds scheduled for the beginning of February to borrow funds at a lower cost, the MoF decided to accept all bids, setting weighted average interest rates at 7.67% and the cut-off interest rate at 8.00%.

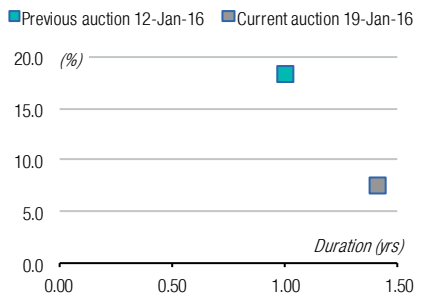
These proceeds will allow the MoF to refinance a significant portion of local market FX-debt repayments scheduled in 1Q16 and create a new benchmark for the next auction, offering FX-denominated bonds. As the 1.5-year bond was sold at interest rates up to 8.00%, there should be demand for the 2-year bond scheduled for 2 February, 2016, at interest rates mostly close to this level. At the same time, as the MoF will not need significant FX proceeds, only a portion of demand could be accepted, most likely at the lowest interest rates.

Table 1. Details of last government bond auction

ISIN	Coupon rate (%)	Payment freq[1]	Maturity	Qty of bonds sold	Price (UAH)	Proceeds[2] (UAHm)	Volume[2] (UAHm)	YTM[3] (%)	Outstanding (m)
UA4000192611	7.67	SA	5-Jul-17	484,513	1,003.16	12,005.32	11,967.47	7.60	11,967.47
Total				**484,513**		**12,005.32**	**11,967.47**		**11,967.47**

Note: Note: [1] payment frequency abbreviations: Q - quarterly, SA - semi-annually; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day last price of USD/UAH exchange rate 24.7; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

Term structure of yields



Sources: Ministry of Finance of Ukraine, ICU.

Auction results

Auction	Last 19-Jan-16	Previous 12-Jan-16	Change
Breakdown by yields (%)			
3-month			
6-month			
9-month			
1-year		18.45	
2-year	7.60		
3-year			
5-year			
Breakdown by proceeds (UAHm)			
3-month			
6-month			
9-month			
1-year		84.46	
2-year	12,005.32		
3-year			
5-year			
Total	**12,005.32**	**84.46**	**142.14x**

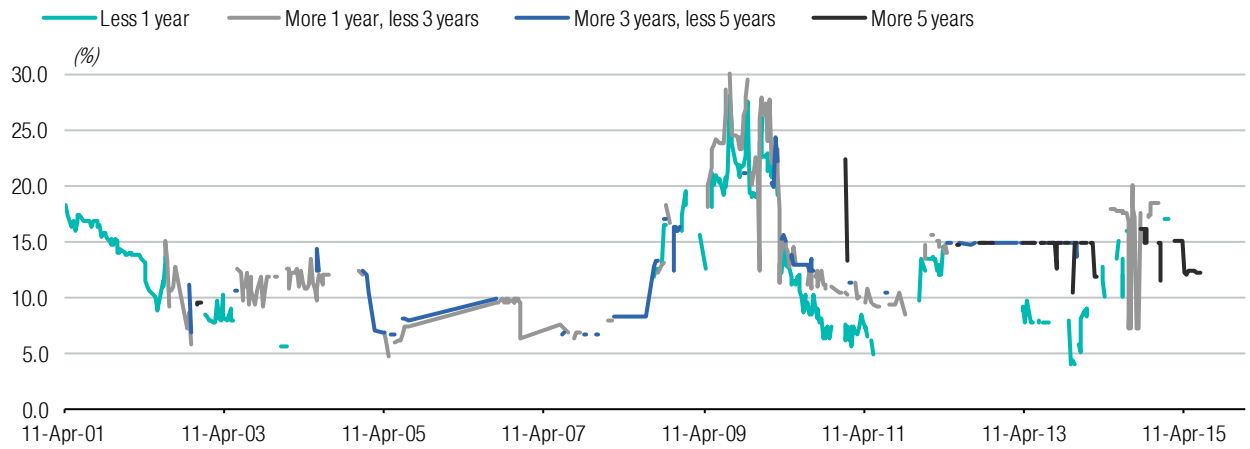
Notes: yields on coupon bearing bonds are effective yields to maturity; [1] only bonds that were placed via the auctions; [2] WA life – weighted average life or years to maturity.

Sources: Ministry of Finance of Ukraine, ICU.

READ FIRST THE DISCLOSURES SECTION FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

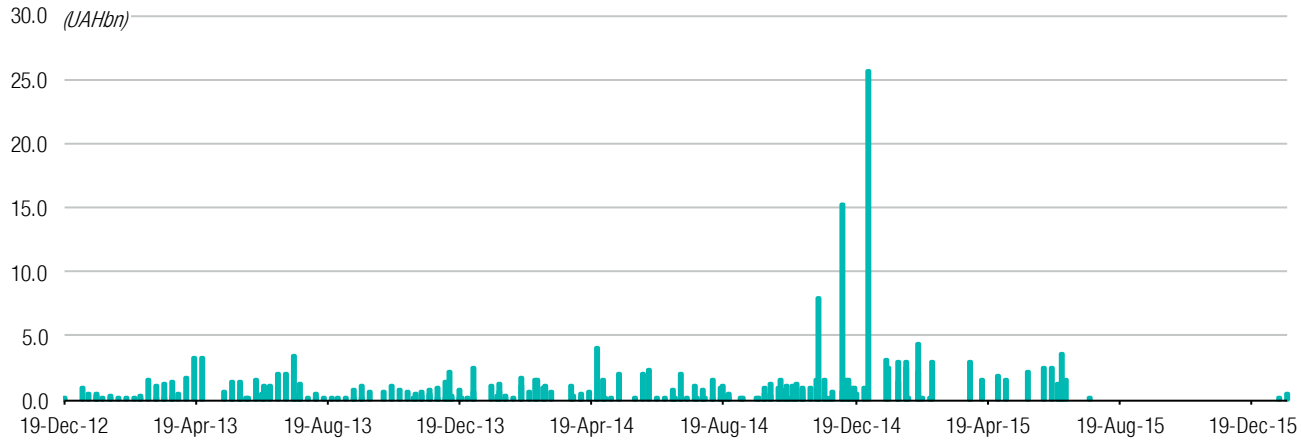
Appendix: Auctions history and schedule for 2016

Chart 1. History of yields at government bond auctions: breakdown by tenor of bonds sold (last 3-year period)



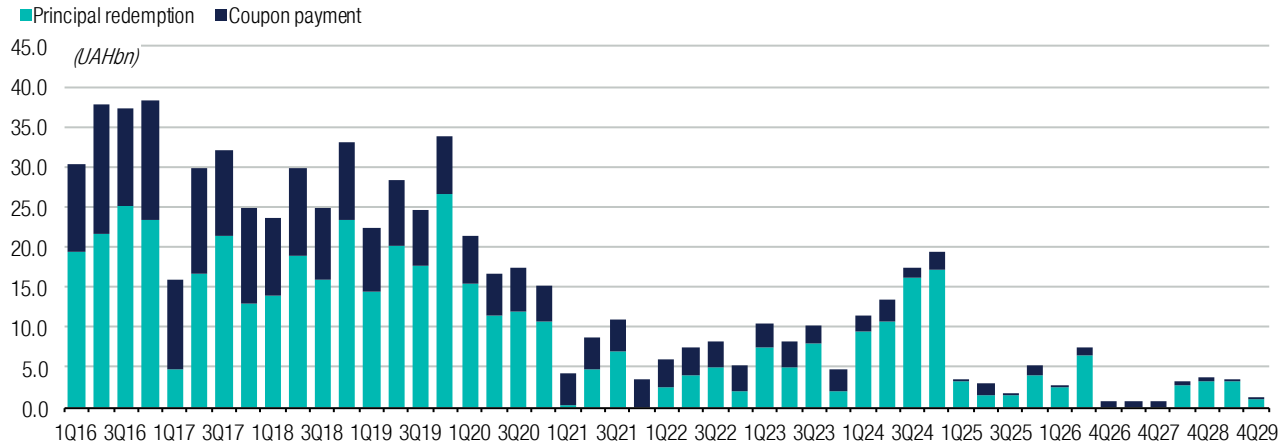
Sources: Ministry of Finance of Ukraine, ICU.

Chart 2. History of proceeds at government bond auctions: breakdown by tenor of bonds sold (last 3-year period)



Sources: Ministry of Finance of Ukraine, ICU.

Chart 3. Schedule of redemptions of the local-currency government bonds*



Note: the chart depicts data on bonds, which were placed via the auctions, i.e. it does not contain data on recapitalisation bonds.
Sources: Ministry of Finance of Ukraine, ICU.

Table 2. Schedule of government bond auctions in 2016

Action dates, tenors of bonds to be offered and volume (in hryvnia) of government's refinancing needs for the next 7-day period as of auction date

Month	Auction details	1st Tuesday	2nd Tuesday	3rd Tuesday	4th Tuesday	5th Tuesday
January	Auction date	5 January 2016	12 January 2016	19 January 2016	26 January 2016	
	Short-term bonds	N/A	N/A	N/A	N/A	
	Medium-term bonds	N/A	N/A	N/A	N/A	
	Next 7 days refinancing needs	0.00	0.00	**1,383,325,820.43**	**9,167,374,476.25**	
February	Auction date	2 February 2016	9 February 2016	16 February 2016	23 February 2016	
	Short-term bonds	N/A	N/A	N/A	N/A	
	Medium-term bonds	N/A	N/A	N/A	N/A	
	Next 7 days refinancing needs	**1,479,662,858.75**	**1,286,792,171.88**	**2,705,367,472.00**	**829,181,572.50**	
March	Auction date	1 March 2016	8 March 2016	15 March 2016	22 March 2016	29 March 2016
	Short-term bonds	N/A	N/A	N/A	N/A	N/A
	Medium-term bonds	N/A	N/A	N/A	N/A	N/A
	Next 7 days refinancing needs	**1,083,750,000.00**	**1,536,322,639.50**	**8,850,242,452.50**	**1,301,964,759.00**	**714,523,137.00**
April	Auction date	5 April 2016	12 April 2016	19 April 2016	26 April 2016	
	Short-term bonds	N/A	N/A	N/A	N/A	N/A
	Medium-term bonds	N/A	N/A	N/A	N/A	N/A
	Next 7 days refinancing needs	**1,234,578,150.00**	**5,024,719,358.50**	**1,758,992,238.00**	**4,285,239,258.00**	
May	Auction date	3 May 2016	10 May 2016	17 May 2016	24 May 2016	31 May 2016
	Short-term bonds	N/A	N/A	N/A	N/A	N/A
	Medium-term bonds	N/A	N/A	N/A	N/A	N/A
	Next 7 days refinancing needs	**1,027,057,389.15**	**5,016,490,636.00**	**1,218,260,997.50**	**2,852,751,131.25**	**3,467,805,605.25**
June	Auction date	7 June 2016	14 June 2016	21 June 2016	28 June 2016	
	Short-term bonds	N/A	N/A	N/A	N/A	
	Medium-term bonds	N/A	N/A	N/A	N/A	
	Next 7 days refinancing needs	**3,374,654,460.00**	**1,214,191,864.00**	**5,074,498,016.25**	**2,231,967,890.00**	
July	Auction date	5 July 2016	12 July 2016	19 July 2016	26 July 2016	
	Short-term bonds	N/A	N/A	N/A	N/A	N/A
	Medium-term bonds	N/A	N/A	N/A	N/A	N/A
	Next 7 days refinancing needs	**3,817,802,232.94**	**3,665,673,705.75**	**6,440,044,854.43**	**988,528,613.75**	
August	Auction date	2 August 2016	9 August 2016	16 August 2016	23 August 2016	30 August 2016
	Short-term bonds	N/A	N/A	N/A	N/A	N/A
	Medium-term bonds	N/A	N/A	N/A	N/A	N/A
	Next 7 days refinancing needs	**1,250,507,682.50**	**7,713,731,071.88**	**1,169,987,129.25**	**2,579,181,572.50**	**1,083,750,000.00**
September	Auction date	6 September 2016	13 September 2016	20 September 2016	27 September 2016	
	Short-term bonds	N/A	N/A	N/A	N/A	
	Medium-term bonds	N/A	N/A	N/A	N/A	
	Next 7 days refinancing needs	424,547,639.50	**4,984,637,452.50**	**565,104,479.00**	**2,653,927,895.50**	
October	Auction date	4 October 2016	11 October 2016	18 October 2016	25 October 2016	
	Short-term bonds	N/A	N/A	N/A	N/A	
	Medium-term bonds	N/A	N/A	N/A	N/A	
	Next 7 days refinancing needs	**1,234,578,150.00**	**939,031,858.50**	**3,503,215,472.00**	**8,383,651,088.00**	
November	Auction date	1 November 2016	8 November 2016	15 November 2016	22 November 2016	29 November 2016
	Short-term bonds	N/A	N/A	N/A	N/A	N/A
	Medium-term bonds	N/A	N/A	N/A	N/A	N/A
	Next 7 days refinancing needs	**1,969,036,389.15**	**3,470,520,636.00**	**3,082,130,997.50**	**1,940,279,531.25**	**4,031,177,805.25**
December	Auction date	6 December 2016	13 December 2016	20 December 2016	27 December 2016	
	Short-term bonds	N/A	N/A	N/A	N/A	
	Medium-term bonds	N/A	N/A	N/A	N/A	
	Next 7 days refinancing needs	**4,172,611,960.00**	**3,450,107,806.50**	**1,466,503,371.25**	**660,717,890.00**	

Notes: 1) highlighted data in the rows of "Next 7 days refinancing needs" indicates critical volume of refinancing needs (i.e. above UAH0.5bn) for the government in the next 7-day period; 2) the volume of refinancing needs include principal redemptions and coupon payments.

Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

This page is intentionally left blank

Disclosures

ANALYST CERTIFICATION

This research publication has been prepared by the analyst(s), whose name(s) appear on the front page of this publication. The analyst(s) hereby certifies that the views expressed within this publication accurately reflect her/his own views about the subject financial instruments or issuers and no part of her/his compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views within this research publication.

EQUITY RATING DEFINITIONS

Buy: Forecasted 12-month total return greater than 20%
Hold: Forecasted 12-month total return 0% to 20%
Sell: Forecasted 12-month total return less than 0%

Note: total return is share price appreciation to a target price in relative terms plus forecasted dividend yield.

DEBT RATING DEFINITIONS

Buy: Forecasted 12-month total return significantly greater than that of relevant benchmark
Hold: Forecasted 12-month total return is in line with or modestly deviates from relevant benchmark
Sell: Forecasted 12-month total return significantly less than that of relevant benchmark

11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kiev, 01030 Ukraine
Phone/Fax +38 044 2200120

WEB www.icu.ua @ICU_UA

CORPORATE FINANCE

Makar Paseniuk, CFA, Managing Director
makar.paseniuk@icu.ua

Roman Nikitov, ACCA Director
roman.nikitov@icu.ua

Ruslan Kilmukhametov, Director
ruslan.kilmukhametov@icu.ua

Ivan Shvydanenko, Director
ivan.shvydanenko@icu.ua

Yuriy Kamarytskyi, Vice President
yuriy.kamarytskyi@icu.ua

Ruslan Patlavsky, Director
ruslan.patlavsky@icu.ua

STRATEGY AND CORPORATE DEVELOPMENT

Vlad Sinani, Director
vlad.sinani@icu.ua

SALES AND TRADING

Konstantin Stetsenko
Managing Director
konstantin.stetsenko@icu.ua

Sergiy Byelyayev
Fixed-Income Trading
sergiy.byelyayev@icu.ua

Vitaliy Sivach
Fixed-Income & FX Trading
vitaliy.sivach@icu.ua

Liliya Kubytovych
Asset Management Product Sales
liliya.kubytovych@icu.ua

Yevgeniya Gryshchenko
Fixed-Income Sales
yevgeniya.gryshchenko@icu.ua

RESEARCH DEPARTMENT

Alexander Valchyshen
Head of Research
alexander.valchyshen@icu.ua

Alexander Martynenko
Head of corporate research
alexander.martynenko@icu.ua

Bogdan Vorotilin
Financial analyst (Food & Agribusiness)
bogdan.vorotilin@icu.ua

Taras Kotovych
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Mykhaylo Demkiv
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Lee Daniels, Rolfe Haas
Editors

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase of sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

Additional information is available upon request.